



Ref: HPX/CERC/1808

Date: 18th August 2025

To,

The Secretary,
Central Electricity Regulatory Commission (CERC)
7th Floor, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi- 110029

Subject: Comments on Draft CERC (Power Market) (First Amendment) Regulations, 2025.

Ref: *Public notice ref no L-1/257/2020/CERC dated 17.06.2025 inviting comments and suggestions on "Draft CERC (Power Market) (First Amendment) Regulations, 2025."*

Dear Sir,

Hon'ble Commission issued Draft CERC (Power Market) (First Amendment) Regulations, 2025 on 17th June'2025 and invited comments from various stakeholders on the same.

Hindustan Power Exchange Ltd. (HPX) is enclosing its comments on the above draft regulations as **Annexure-I** for perusal of the Hon'ble Commission.

Yours sincerely,

For Hindustan Power Exchange Limited

(Harish Saran)

Managing Director

Hindustan Power Exchange Limited

Regd. Office: 25th Floor, P.J. Towers, Dalal Street, Fort, Mumbai - 400001
Corporate Office: World Trade Tower, 8th Floor, Sector-16, Noida, UP- 201301

✉ info@hpxindia.com | ☎ 0120 4769900 | 🌐 www.hpxindia.com

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Annexure- I

HPX's comments on Draft (Power Market) (First Amendment) Regulations, 2025

Background

The enactment of Electricity Act 2003 (“Act”) was a defining moment for Indian power sector. For the first time, “trading of electricity” was recognized as a distinct licensed activity, and the Regulatory Commissions were entrusted with **development of power market** in India. This foundational shift helped transform the power sector from a rigid utility model into a **dynamic marketplace** as it exists today.

With the above mandate, Hon’ble Central Electricity Regulatory Commission (CERC) enabled creation of power exchanges – neutral venues with transparent, efficient and anonymous price discovery based on market forces of demand and supply. To regulate the power exchanges and lay down conditions of trading on these platforms, the Commission notified CERC (Power Market) Regulations 2010. With clear rules, regulated transaction fees, risk management, and algorithmic bidding, the power exchanges became the core of India’s short-term power market.

In 2021, CERC notified new CERC (Power Market) Regulations 2021 (PMR 2021) and introduced the concept of Over the counter (OTC) platform, an electronic platform solely for the purpose of exchange of information amongst buyers and sellers of electricity. The Commission stressed in the Statement of Reasons (SoR) of PMR 2021 that OTC platform was introduced “only for exchange of information amongst buyers and sellers of electricity, while the actual finalization of transaction and financial settlement takes place outside the OTC platform.” (Clause 2.4.4 of the SoR). In clause 27.6 of the SoR, the Commission further emphasized that “Under no circumstances, OTC platform shall be involved in the actual transactions between buyers and sellers.” The Commission also did not specify any reporting obligation of the OTC platforms as “no transaction shall take place on OTC platform.” (clause 29.5 of the SoR).

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Thus, there was a principled distinction among the roles of traders, exchanges and OTC platforms to preserve the transparency and trustworthiness of the market. However, the first amendment to PMR 2021 which proposes to expand OTC platforms' roles and functions, risk blurring the above distinction. It may potentially create a parallel, lightly-regulated market resulting in fragmentation of liquidity in an already small power market and will undermine the policy and regulatory intent of the Act as well as PMR 2021.

From the background of development of Indian power market, the primary lesson to be learnt is that **integrity of the market lies in clarity of roles**. The vision of competitive, transparent and efficient electricity market, envisaged in the Act, can only be achieved and sustained if the market institutions stay true to their purpose.

Against this backdrop, our comments are in the following paragraphs.

1. PMR 2021 envisaged limited role for OTC platforms

- a. As per Regulation 2 (1) (ap) of the principal regulations i.e. CERC (Power Market) Regulations 2021 (PMR 2021), OTC platforms were envisaged as electronic platforms for exchange of information amongst buyers and sellers of electricity.
- b. The intent was to provide a **information and facilitation mechanism** for bilateral transactions *outside* power exchanges — without involving price discovery, clearing, or settlement functions.
- c. Such facilitative platforms were meant to **reduce information asymmetry**, particularly in the **long-term, bilateral contract space**, and enhance contract visibility and traceability.

2. Regulatory distinction between Power Exchanges (PXs) and OTC platforms

- a. PMR 2021 clearly delineates different roles for PXs and OTC platforms.
- b. The PXs are authorized to conduct **electronic price discovery**, undertake **clearing and settlement**, and operate markets for real-time, day-ahead, and other approved contracts.
- c. Whereas OTC platforms were supposed to provide the following: -
 - (i) platform with the information of potential buyers and sellers of electricity;

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- (ii) repository of data related to buyers and sellers and provide such historical data to Market Participants.
 - (iii) provide such services as advanced data analysis tools to Market Participants.
- d. This distinction was in furtherance to achieve the objective of Section 66 of the Electricity Act 2003 (EA2003) i.e. development of market as per National Electricity Policy (NEP). A conjoint reading of the EA2003, NEP and CERC's explanatory memorandums to PMR 2021 leads to the conclusion that for efficient and competitive power market, PXs to provide a transparent, neutral, and regulated platform for competitive electricity trading that enables fair price discovery, enhances market liquidity, and promotes the development of an efficient, reliable, and non-discriminatory power market in line with national tariff policy and OTC platforms solely for the purpose of providing the information to the market participants.

3. Risk of parallel market operators

- a. The draft amendments allow OTC platforms membership-based trading to facilitate a broad range of contracts including Battery Storage, Banking, VPPAs etc. and handle scheduling and compliance responsibilities.
- b. This will undermine the regulatory demarcation between **power exchanges (PXs) and information platforms (OTCs)**, leading to **quasi-exchange functionality** without being subjected to the same level of oversight and compliance.

4. Contradiction with PMR's Objectives and Regulatory Arbitrage

- a. PXs are governed by stringent provisions under the PMR 2021. OTC platforms, by contrast, face **relaxed regulatory requirements**, yet are now being proposed to undertake **similar roles**.
- b. Regulation 8 of the PMR 2021 states that the one of the core objectives of the PXs is 'fair, neutral, efficient and robust price discovery'. OTC platforms lack the safeguards and standardization necessary for **neutral price discovery, market surveillance, and systemic integrity**. Expanding OTC scope runs counter to the policy goal of **consolidated, transparent price signals, and strong market coupling** architecture envisaged by policymakers.

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- c. This creates a potential for **regulatory arbitrage** and **non-transparent trading** outside the core exchange ecosystem.

5. Original Role of OTC Platforms needs to be Reaffirmed

- a. OTC Platforms, as discussed above, were introduced solely for **information dissemination and matchmaking**, not for power trading. They were never envisaged as market operators like the PXs.
- b. Functions like **price discovery, contract execution, and settlement** should remain exclusive to **Power Exchanges**. OTC platforms may serve only as **non-binding facilitators**—not as venues that can **host or settle trades**.
- c. Allowing parallel structures risks **undermining trust in regulated exchanges**, and hinders future implementation of **market coupling, real-time balancing, or single-price clearing** mechanisms.

6. Differential Regulatory Obligations

- a. Through the draft amendments, it is proposed that OTC platforms shall facilitate execution of contracts without taking counter-party risk or credit risk on behalf of the trading parties.
- b. This proposed amendment contradicts the core concept of trading and will create a **fundamental imbalance** in the regulatory architecture of the power market as both the power traders and power exchanges assume these risks and mitigate these through different mechanisms as approved by the Commission.
- c. This will lead to an unjustified regulatory loophole where OTC platforms will engage in trading activities like traders and exchanges but without any risk or accountability. This will dilute market discipline, undermine regulated entities and will create perverse incentives for the market participants to shift away from transparent, risk-mitigated platforms.

7. Amendment Procedure

- a. With utmost respect, we submit that the procedural manner in which the Draft Power Market (First Amendment) Regulations, 2025 have been introduced may not be fully commensurate with the significance of the changes proposed.
- b. We also wish to submit that the proposed amendments may set a precedent which could be viewed as inconsistent. At the time of introduction, Over-the-Counter (OTC) platforms were permitted to be set up with relaxed norms on the understanding that their scope would remain limited. Accordingly, other market institutions and

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participants did not raise substantive objections. It may kindly be recalled that power exchanges and traders were not permitted to establish such platforms on the grounds of conflict of interest and the need to maintain clear segregation between trading activity and access to transaction-related information. However, the present proposal to expand the scope of OTC platforms appears to overlook the very rationale that was earlier cited to restrict power exchanges and traders from entering this domain.

Conclusion

From a legal, regulatory, and policy standpoint, **OTC Platforms were never envisaged to be parallel Power Exchanges**. The expansion of their role as proposed in the 2025 draft amendments could violate the spirit and structure of the **Power Market Regulations 2021**, lead to **market fragmentation** in a relatively small power market and may potentially undermine the integrity, transparency, and efficiency of the power market. The rationale of segregating information dissemination from trading, cited for not allowing power exchanges and power traders to establish OTC platforms, must be followed in letter and spirit. **Preserving a single, regulated, transparent market platform — the Power Exchange — is in line with the Electricity Act, the NEP, and global best practices**. Therefore, we propose OTC platforms to remain auxiliary entities focused on market facilitation and transparency, not trade execution. Let the OTC platforms inform. Let the Power Exchanges trade. And let the market remain transparent, trustworthy, and built on the rule of law.

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